

INVESTMENT ADVISORY COUNCIL
WEDNESDAY, March 11, 2009

MEETING NO. 364

Members present:

Thomas Barnes
Thomas Fiore, representing Robert Genuario
David (Duke) Himmelreich
James Larkin, Chairman
Stanley (Bud) Morten
William Murray
Sharon Palmer
Carol Thomas
Peter Thor¹

Absent:

Michael Freeman
Denise L. Nappier, Treasurer
David Roth

Others present:

Howard G. Rifkin, Deputy Treasurer
Linda Hershman, Assistant Deputy Treasurer/Chief of Staff
Lee Ann Palladino, Acting Chief Investment Officer
Joanne Dombrosky, Principal Investment Officer
Gregory Franklin, Assistant Treasurer-Investments
David Holmgren, Principal Investment Officer
Wayne Hypolite, Executive Assistant
David Johnson, Principal Investment Officer
Catherine LaMarr, General Counsel
Shelagh McClure, Director of Compliance
Linda Tudan, Chief Executive Assistant
Lawrence Wilson, Assistant Treasurer-Cash Management
Winifred (Winnie) Scalora, Administrative Assistant

Guests:

Joseph Barcic, Mercer Investment Consulting
Makaiya Brown, Mercer Investment Consulting
Steven Case, Mercer Investment Consulting
Maykala Hariharan, Rogerscasey
Robin Kaplan-Cho, Connecticut Education Association
Harvey Kelly, Leumas Advisors
Jacqueline Lyons, State Street Bank & Trust
Julie Naunchek, CSEA-Retiree Council #400
Joseph D. Roxe, Bay Holdings LLC
Cynthia Steer, Rogerscasey

¹ In at 9:18 a.m.

With a quorum present, Chairman Larkin called the Investment Advisory Council (“IAC”) meeting to order at 9:00 a.m.

Approval of Minutes of the February 11, 2009 IAC Meeting

Chairman Larkin asked for comments on the Minutes of the February 11, 2009 IAC meeting. **There being no comments, a motion was made by William Murray, seconded by Carol Thomas, that the Minutes of the February 11, 2009 IAC meeting be accepted as drafted. The motion was passed unanimously.**

IAC Audit Committee Update

David (Duke) Himmelreich, Chair of the IAC Audit Committee, provided a brief update on his December 15, 2008 meeting with Treasurer Denise Nappier and her staff regarding the findings of the Auditors of Public Accounts. Mr. Himmelreich reported that questions raised during the 2007 fiscal year’s audit report had been dealt with satisfactorily. Regarding the Office of the Treasurer’s (“OTT’s”) general policy for determining valuations for the different funds throughout the year, he stated that procedures were in place to check for inconsistencies.

CRPTF Final Performance for the Month of January 2009

Lee Ann Palladino, Acting Chief Investment Officer, provided a report on the Connecticut Retirement Plans and Trust Funds’ (“CRPTF’s”) performance for the month ended January 31, 2009. Ms. Palladino began by providing general comments on the economy and discussed the implications for the equity and bond portfolios within the CRPTF.

Ms. Palladino stated that the Real Estate Fund (“REF”) was about \$1 billion or 5% of the CRPTF’s total assets and the Private Investment Fund (“PIF”) was about \$1.8 billion or 9.4% of the CRPTF’s total assets. She commented on the short-term outlook for the REF and the PIF and discussed market variables that were impacting the General Partners. She indicated these variables included difficulties associated with accessing the debt markets, reaching fund goals and a lack of market for exiting properties or companies.

Overall, Ms. Palladino reported that the CRPTF was at \$19.4 billion and fell 23.49% fiscal year-to-date showing negative returns out to the three-year and flat returns in the longer five and seven-year horizons. She further reported that the Teachers’ Retirement Fund (“TERF”) lost 23% fiscal year-to-date surpassing the benchmark, which was down 28%, by 490 bps and that the TERF was at \$10.9 billion with solid liquidity at 5.4%. Ms. Palladino reported the State Employees’ Retirement Plan was at \$6.9 billion with a similar return profile as the TERF and strong liquidity at 4.7%. Finally, she reported that there was a more conservative asset allocation for the Municipal Employees’ Retirement Plan, which was at \$1.3 billion and posted a decline of 20.6% with strong liquidity of 4.9%.

Regarding the REF and PIF, Stanley Morten asked about whether there was enough cash flow, in the absence of expected distributions, to fund outstanding commitments. Ms. Palladino stated

that there were no problems in the near term because cash flow projections addressed current market conditions and were conservative.

Update on CRPTF Watch List

Ms. Palladino first provided an overview on the Watch List process as outlined in the Investment Policy Statement (“IPS”) discussing Watch List trigger events that included performance, turnover of key members or professional staff, significant events affecting management of the company, violations of investment guidelines, style drift or any other event that affected a money manager’s ability to perform. She added that once on the Watch List, the manager was reviewed every six months and it would be determined if a recommendation should go to the Treasurer regarding whether or not a manager should be removed from watch, maintained on watch or potentially terminated. She stated that, in light of the current environment, multiple organizational pressures were being placed on managers including loss of talent, performance bonuses being alleviated, financial distress, layoffs of team or support staff, and other firm-wide distractions.

Ms. Palladino then provided an update on the status of the managers on the CRPTF Watch List. She reported that State Street Global Advisors (“SSgA”) and INVESCO Global Asset Management (“INVESCO”) were removed from the Watch List. Ms. Palladino stated that SSgA organizational concerns had stabilized and INVESCO improved its performance since the last quarterly report. She reported that Trust Company of the West (“TCW”) would remain on the Watch List due to continued performance concerns. Finally, she reported that Goodwin Capital Advisers, a subsidiary of the Phoenix Companies, was added to the Watch List for organizational and performance concerns.

Connecticut Horizon Fund Review as of December 31, 2008

Maykala Hariharan, Associate Director and Cynthia Steer, Managing Director, of Rogerscasey presented the Connecticut Horizon Fund (“CHF”) performance report for the quarter ended December 31, 2008. Ms. Hariharan stated that the CHF outperformed its benchmark by 84 bps for the quarter but underperformed its benchmark by 4 bps for the fiscal year. Since inception, she reported that the CHF added value of 54 bps above its benchmark. Since inception with 25 managers in 2005, Ms. Hariharan noted that the CHF had grown to 47 sub managers by the end of 2008. She then highlighted a few notable CHF managers for the fourth quarter of 2008 that added value or outperformed the benchmarks. In conclusion, Ms. Hariharan commented on the manager allocation and diversity within the CHF.

Questions posed by Mr. Morten, Sharon Palmer and Peter Thor regarding the process for accepting new sub-managers, the level of sub-manager turnover and the graduation developments of sub-managers that no longer met the inclusion guidelines of CHF were answered satisfactorily.

Combined Investment Funds Review as of December 31, 2008

Joseph Barcic and Steven Case, Co-Leads, and Makaiya Brown, Senior Associate, of Mercer Investment Consulting, Inc. ("Mercer") provided the overall investment results for the Combined Investment Funds ("CIF") for the quarter ended December 31, 2008. Mr. Case began by providing a brief market overview of what occurred within the capital markets and focused on the key trends that affected the CRPTF's managers. He noted that the S&P 500 Index lost about 22% for the fourth quarter and 37% for the 2008 calendar year and added that these numbers were, by historical standards, unprecedented. Regarding the non-U.S. markets, Mr. Case stated that most underperformed the U.S. markets last year. He said that there were very few trends in style or capitalization last year and virtually everything declined uniformly. Within the global marketplace, Mr. Case commented that everything performed poorly with emerging markets down more than 50% during the 2008 year. He noted that the trends that did take place were in the fixed income market place and the broad government index securities were up significantly. Mr. Case then commented on the mortgage-backed securities, emerging debt decline and high yield markets, which all posted historical lows.

Ms. Brown provided highlights at the fund and manager levels for the fourth quarter of 2008. She reported that the CRPTF performed in line with the broader markets. Regarding the Mutual Equity Fund, Ms. Brown reported a quarterly loss of 23.8% underperforming the Russell 3000 by 100 bps, but she added that it matched the performance of the benchmark for the year ended December 31, 2008. Regarding the Developed Markets International Stock Fund, Ms. Brown stated that performance was slightly better on a broad basis than U.S. markets during the fourth quarter, outperforming the index by 180 bps even with a double digit decline for the quarter and the 2008 year. She reported that the Emerging Markets International Stock Fund posted a double digit decline and that China was the best performing country and Russia was the worst due to the decline in oil prices.

Ms. Brown reported that the CFIF posted positive returns for the quarter even though it underperformed its benchmark by 350 bps. She reported that the High Yield Bond Fund posted a negative 17.4%, underperforming the index by 20 bps. Ms. Brown stated that the Emerging Market Debt Fund underperformed the benchmark by 770 bps with a negative 13.7% return for the quarter. Finally, Ms. Brown reported that the Inflation Linked Bond Fund posted a negative 1.5% but it outperformed the index by 200 bps.

Mr. Morten asked about the relevance of all the historic data to which Mr. Barcic explained the necessity for reporting on managers in absolute and relevant terms but added that they also help staff select managers on a prospective basis to identify managers who had high probabilities of exceeding their indexes. Ms. Palladino noted that the reporting of historic performance results was required to be presented to the IAC. She agreed that strategic and prospective views and market trends are also to be discussed at IAC meetings and that this information was included in her monthly comments. Mr. Morten commented that he would like the IAC to be more forward looking. Deputy Treasurer Rifkin added that the IAC's active role was helping to set the asset allocation and approving the IPS. He also stated that trends were brought before the IAC on an

as-needed basis and that the IAC had always been and would continue to be involved in tactical decisions.

Mr. Barcic concluded the presentation by announcing that Mercer had purchased Callan Associates, Inc. ("Callan"), a San Francisco based investment consulting firm. He added that Callan was about the same size as Mercer domestically, in terms of the number of clients and employees. Mr. Barcic noted that this purchase would not affect the way Mercer had and would continue to deal with Connecticut. Finally, Mr. Barcic said that Mercer had the financial wherewithal to affect this transaction during this current difficult economic climate.

Short-Term Investment Fund Review as of December 31, 2008

Lawrence Wilson, Assistant Treasurer-Cash Management, reported on the performance of the Short-Term Investment Fund ("STIF") for the quarter ended December 31, 2008. Mr. Wilson reported that the STIF had an average monthly annualized yield of 1.86%, 5 bps above its benchmark, which resulted in an additional \$560,000 in interest earnings for government investors. He added that this was accomplished while maintaining a high level overnight and one-day liquidity which currently stood at about \$3 billion of the \$4.4 billion fund or 67% of fund assets. Mr. Wilson also reported that the weighted-average maturity remained at the low end of the historical scale at about 20 days.

Other Business

Mr. Himmelreich announced that the IAC Audit Committee would meet immediately following today's meeting.

Discussion of preliminary agenda for the April 8, 2009 IAC meeting

Chairman Larkin invited IAC members to submit agenda items for the April 8, 2009 meeting.

Comments by the Chairman

Chairman Larkin commented on today's meeting and announced that he has retired from service as Chairman of the IAC and today was his last meeting. He stated that the Governor accepted his request to retire after 5 years of service on the IAC. Chairman Larkin said that he felt honored and fortunate to have served with all of the IAC members. He then announced that Governor Rell had appointed a new Chair for the IAC, effective March 12, 2009. Chairman Larkin then introduced Joseph D. Roxe and stated that he had an extensive investment background.

On behalf of Treasurer Denise L. Nappier and the Office of the Treasurer, Deputy Treasurer Rifkin thanked Chairman Larkin for his dedicated service. He further stated that Mr. Larkin had the distinction of being the Chair during a very challenging era in the history of the pension fund. Deputy Treasurer Rifkin noted that Chairman Larkin's service had been with merit and it was appreciated and respected. He then wished Chairman Larkin all the best.

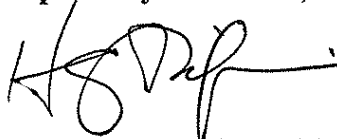
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There being no further business, the meeting was adjourned at 10:27 a.m.

An audio tape of this meeting was recorded.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'HGRifkin', with a horizontal line extending to the right.

**HOWARD G. RIFKIN, DEPUTY TREASURER
for
DENISE L. NAPPIER, SECRETARY**